

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ALTERNATE RATE FILING OF OLDHAM) CASE NO. 2010-00432
WOODS SANITATION, INC.)

O R D E R

On November 5, 2010, Oldham Woods Sanitation, Inc. ("Oldham Woods") filed with the Commission an application for an adjustment of rates pursuant to 807 KAR 5:076. Commission Staff has performed a review of the proposed adjustment and recently prepared a report of its findings and recommendations. A copy of this report is found at Appendix A to this Order.

IT IS THEREFORE ORDERED that:

1. All parties shall have 14 days from the date of this Order to:
 - a. File with the Commission written comments, if any, on the findings and recommendations contained in the Commission Staff Report; and
 - b. Request a formal hearing in this matter or an informal conference with the Commission Staff.
2. A party's failure to file with the Commission written objections to any finding or recommendation contained in the Commission Staff Report within 14 days of this Order shall be deemed as agreement with that finding or recommendation and a waiver of any right to object to that finding or recommendation.
3. A party's failure to request a formal hearing in this matter within 14 days of this Order shall be deemed as a waiver of any right to a hearing.

4. Any party that requests a hearing in this matter shall specifically state in its written request for hearing all objections to the findings and recommendations set forth in the Commission Staff Report and shall provide a brief summary of testimony that it expects to present at hearing.

5. Within 14 days of the date of this Order, Oldham Woods shall advise the Commission in writing of its position on amending its requested rates to a level that will generate \$46,309 annually—the maximum revenue requirement that Commission Staff found Oldham Woods' test-year operations would support.

6. Oldham Woods shall submit any amended request for rate adjustment to the Commission with its response to the Commission Staff Report.

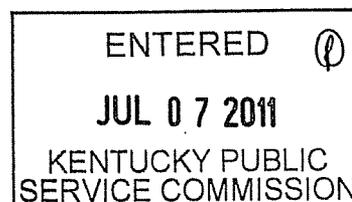
7. If Oldham Woods submits an amended request for rate adjustment to the Commission, it shall mail written notice of the amended request to each of its customers no later than the date of filing of its amended request with the Commission. Notice shall be in the format set forth in Appendix B.

8. If the Commission does not receive any written request for a hearing or for an informal conference with Commission Staff within 14 days of the date of this Order, this case shall stand submitted to the Commission for decision based upon the existing record.

By the Commission

ATTEST:


Executive Director



APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2010-00432 DATED JUL 07 2011

STAFF REPORT
ON
OLDHAM WOODS SANITATION, INC.
CASE 2010-00432

On November 5, 2010, Oldham Woods Sanitation, Inc. ("Oldham Woods") filed its application to increase its rates for sewer service pursuant to 807 KAR 5:076. Oldham Woods proposes to increase its current monthly rate from \$20 to \$35, an increase of 75 percent. The proposed increase would produce additional revenues of \$19,260 annually. The application is based upon utility operations for the calendar year ending December 31, 2009.

Commission Staff performed a limited financial review of Oldham Woods' operations for the 12 months ending December 31, 2009 to determine the reasonableness of Oldham Woods' requested rate increase. The scope of this review was limited to obtaining information as to whether the test-year operating revenues and expenses were representative of normal operations. Insignificant or immaterial discrepancies were not pursued and are not addressed herein.

Daryl Parks and Jason Green of the Commission's Financial Analysis Division performed the limited review. This report summarizes Staff's findings and recommendations resulting from their review. Mr. Parks is responsible for all areas of this report concerning revenue requirements while Mr. Green is responsible for normalized revenues and rate design.

Appendix A of this report details Oldham Woods' reported test-year operations and Commission Staff's adjustments for known and measurable changes. Appendix B provides a detailed calculation of Oldham Woods' revenue requirement.

Commission Staff finds Oldham Woods' annual revenue requirement should be \$46,309. This requirement requires an increase of \$20,629, or approximately 80.3 percent, over normalized test-year revenues from rates of \$25,680. This revenue requirement is \$1,369 greater than Oldham Woods' requested amount and results in a monthly rate of \$36.07, which is \$1.07 higher than Oldham Woods' proposed rate. Commission Staff finds that Oldham Woods' requested revenue requirement will produce a positive cash flow of \$13,994 as shown in Table I below.

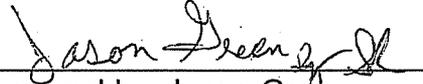
Normalized Revenue	\$ 25,680
Add: Requested Increase	<u>19,260</u>
Total Revenue Requirement	44,940
Less: Operating Expenses	<u>39,558</u>
Net Operating Income	5,382
Add: Depreciation & Amortization	<u>8,612</u>
Net Cash Flow	<u>\$ 13,994</u>

Commission Staff finds that this positive cash flow is sufficient for Oldham Woods to pay its pro forma "cash" expenses and, therefore, recommends Oldham Woods' proposed rates be approved.

Signatures:



Prepared by: Daryl Parks
Public Utilities Financial Analyst
Water Revenue Requirements
Branch, Division of Financial
Analysis



Prepared by: Jason Green
Rate Analyst, Water and
Sewer Rate Design Branch
Division of Financial Analysis

APPENDIX A
STAFF REPORT CASE NO. 2010-00432
STAFF'S ADJUSTED OPERATIONS

	Test-year	Adjustment	Ref.	Pro forma
Operating Revenues				
Sewage Rates				
Residential Customers	\$ 25,440	240	A	\$ 25,680
	<u>25,440</u>	<u>240</u>		<u>25,680</u>
Operating Expenses				
Operation and Maintenance Expenses				
Owner/Manager Fee	-	3,600	B	3,600
Fuel & Power for Pumping & Treatment	2,423	2,981	C	5,404
Agency Collection Fee	3,306	-	D	3,306
Outside Services Employed	16,201	250	E	16,451
Insurance Expense	-	-	F	-
Misc General Expenses	<u>4,562</u>	<u>(4,562)</u>	G	<u>-</u>
	26,492	2,269		28,761
Depreciation	6,917	1,112	H	8,029
Amortization	-	583	I	583
State Income Tax	175	(175)	J	-
Taxes Other than Income	<u>2,535</u>	<u>(350)</u>	K	<u>2,185</u>
	<u>36,119</u>	<u>3,439</u>		<u>39,558</u>
Total Operating Expenses	<u>36,119</u>	<u>3,439</u>		<u>39,558</u>
Utility Operating Income	<u>(10,679)</u>	<u>(3,199)</u>		<u>(13,878)</u>
Income Available to Service Debt	<u>\$ (10,679)</u>	<u>(3,199)</u>		<u>\$ (13,878)</u>

A) Normalized Revenue. To calculate its normalized revenue for the test-year, Oldham Woods multiplied its monthly fee of \$20 by the number of its customers (107) and the number of months in a year (12). As the normalized revenue of \$25,680 was \$240 more than the revenue recorded in the test-year, Oldham Woods increased its test-year revenue by \$240. Commission Staff agrees with the adjustment.

B) Owner/Manager Fee. In its application, Oldham Woods requested a \$3,600 salary for its Owner/Manager, who currently is not specifically compensated for

managing the utility. As the Commission has previously found \$3,600 to be a reasonable level of compensation for an Owner/Manager of a small sewer utility,¹ Commission Staff concurs and recommends that the Commission accept the proposed adjustment.

C) Fuel and Power Expense. In its application, Oldham Woods proposes to adjust the test-year expense to reflect "below normal" electric usage that allegedly resulted from damage to an aerator during the January 2009 ice storm. It contends that this aerator, for which replacement was purchased in February 2010 and subsequently installed, failed to work properly and led to an abnormally low level of electricity usage. Oldham Woods further contends that using the utility's 2010 electricity usage would be more reflective of normal operations.

To eliminate the effects of any defective equipment and ensure a level of electric expenses reflective of current operations, Commission Staff calculated Oldham Woods fuel and power expense using 2010 calendar year expenses. In July 2010, the Commission authorized an increase in Kentucky Utilities Company's rates for electric service.² This increase first appeared in the September 2010 utility bill. Accordingly,

¹ Case No. 2007-00443, *South 641 Water Dist.* (Ky. PSC Dec. 20, 2007); Case No. 2008-00042, *Cedarbrook Treatment Plant* (Ky. PSC July 29, 2008); Case No. 2008-00355, *Thomas Country Estates Wastewater Treatment Plant* (Ky. PSC Oct. 24, 2008); Case No. 2008-00482, *Purchase Public Service Corp.* (Ky. PSC Mar. 24, 2009); Case No. 2008-00501, *Ledbetter Water Dist.* (Ky. PSC May 22, 2009); Case No. 2008-00506, *Powell's Valley Water Dist.* (Ky. PSC Apr. 14, 2009); Case No. 2009-00075, *Longview Land Co.* (Ky. PSC July 20, 2009); Case No. 2009-00227, *Middletown Waste Disposal, Inc.* (Ky. PSC Apr. 30, 2010); Case No. 2009-00403, *Evergreen Disposal System, Inc.* (Ky. PSC July 29, 2010); Case No. 2010-00231, *Purchase Public Service Corp.* (Ky. PSC Sept. 9, 2010).

² Case No. 2009-00548, *Kentucky Utilities Co.* (Ky. PSC July 30, 2010).

Commission Staff has adjusted the energy charge, service charge, school tax, and sales tax for the previous eight months to normalize the expense as shown in the calculation below. This adjustment, which is reflected in Table II, results in a total test-year normalized expense of \$5,404, an increase of \$2,981.

<u>Month</u>	<u>Usage</u>	<u>Energy Charge</u>	<u>Service Charge</u>	<u>Fuel Adj</u>	<u>Electric DSM</u>	<u>Environ Surcharge</u>	<u>School Tax</u>	<u>Sales Tax</u>	<u>Total</u>
Jan	3,499	\$ 272.78	\$17.50	\$ (4.83)	\$ 2.59	\$ 34.49	\$ 9.68	\$ 19.93	\$ 352.14
Feb	2,416	\$ 188.35	\$17.50	\$ 1.38	\$ 1.79	\$ 23.77	\$ 6.98	\$ 14.39	\$ 254.16
Mar	3,124	\$ 243.55	\$17.50	\$ 7.69	\$ 2.31	\$ 27.01	\$ 8.94	\$ 18.42	\$ 325.42
Apr	1,554	\$ 121.15	\$17.50	\$ (0.30)	\$ 1.51	\$ (4.16)	\$ 4.07	\$ 8.39	\$ 148.16
May/June	11,573	\$ 902.23	\$17.50	\$ (3.77)	\$ 11.22	\$ 51.40	\$29.36	\$ 60.48	\$1,068.41
July	6,707	\$ 522.88	\$17.50	\$ 11.33	\$ 6.51	\$ 34.50	\$17.78	\$ 36.63	\$ 647.13
Aug	3,170	\$ 247.13	\$17.50	\$ 17.05	\$ 1.84	\$ 11.97	\$ 8.86	\$ 18.26	\$ 322.62
Sept									\$ 343.23
Oct									\$ 722.39
Nov									\$ 603.53
Dec									\$ 616.42
TOTAL									<u>\$5,403.61</u>

D) Agency Collection Fee. Oldham County Water District charges Oldham Woods a billing and collection fee of 13 percent of the total amount billed to a customer. Oldham Woods proposes to increase the fee to \$5,842 to account for the 13 percent charge on the pro forma revenue of \$44,940.³

Based upon previous Commission decisions in which the Commission found a billing and collection fee of 15 percent to be unreasonable⁴ and the lack of convincing evidence that Oldham Woods have made a serious effort to explore alternative billing methods, Commission Staff recommends that the Commission deny Oldham Woods'

³ \$35 per customer per month x 12 months x 107 customers = \$5842.

⁴ Case No. 2007-00436, *Farmdale Development Corp.* (Ky. PSC July 30, 2008) at 12.

proposed adjustment and allow only the recovery of the test-year agency collection fee expense of \$3,306 incurred during the test-year. Commission Staff further recommends that Oldham Woods be placed on notice that in any future rate proceeding it will be required to demonstrate the reasonableness of its agency collection fee expense and to show that it has undertaken reasonable efforts to develop an alternative to its present collection methods, including the conduction of its own billing and collection.

E) Outside Services Employed. In its application, Oldham Woods proposes an adjustment of \$250 to include fees incurred for preparing and filing its Annual Report with the Commission. For the test-year, the Outside Services Employed account consisted of a \$428 payment to Murphy Excavating and \$15,773 for payments to Camden Environmental for plant operations. Commission Staff has reviewed the expenses paid and the contract with Camden Environmental and recommends that the Commission accept the adjusted pro forma expense of \$16,451.

F) Insurance Expense. Oldham Woods proposes to adjust test-year expenses to reflect the purchase of a liability insurance policy. Oldham Woods currently has no liability insurance, but has obtained an unsigned quote for general liability insurance from Voit-Lee Insurance Agency in the approximate amount of \$3,000 plus applicable taxes and fees. The estimated policy cost is based upon the level of Oldham Woods' annual sales/receipts.

Commission Staff recommends that the proposed adjustment be denied. The adjustment is for an expense that has not been incurred and for which the Commission has no assurance that it will be incurred. Furthermore, the amount is not known and measurable because the adjustment is an approximation based on the revenue

reported on the Annual Report. Finally, the supporting evidence for the adjustment is insufficient as the utility have failed to provide evidence of the cost from at least two vendors and has provided an invoice that is unsigned and fails to breakdown the total cost of the insurance.

G) Miscellaneous Expense. Oldham Woods proposed to reduce miscellaneous expense by \$4,562 to eliminate expenses that were not recurring operating expenses. Having reviewed the supporting documentation for these expenses, Staff concurs with this adjustment.

H) Depreciation Expense. In its application, Oldham Woods increased depreciation by \$1,112 to reflect the costs associated with the purchase and installation of an aerator in 2010. Oldham Woods proposes to depreciate the aerator, which cost \$5,560, over five years. Commission Staff concurs with this adjustment.

I) Amortization Expense. Oldham Woods proposes an adjustment of \$583 to the Amortization Expense to amortize fees of \$1,750 associated with the utility's retention of a consultant over a three-year period. Commission Staff concurs with this adjustment.⁵

J) Taxes Other than Income. Oldham Woods reduced the Taxes Other than Income account by \$350 because two tax payments were for 2007 and 2008. Staff agrees with this adjustment.

⁵ Commission Staff acknowledges that 807 KAR 5:076 currently provides for a utility to request assistance from Commission Staff to prepare an application for rate adjustment and raises the issue as to whether the utility's failure to seek Commission Staff assistance resulted in unreasonable expenses or expenses that benefited utility management only. Commission Staff is of the opinion that the expenses in question are not unreasonable.

K) State Income Tax. Oldham Woods removed a \$175 payment for State Income Tax since the effects of state income taxes are taken into account when calculating the utility's total revenue requirement. Staff agrees with this adjustment.

APPENDIX B
 STAFF REPORT CASE NO. 2010-00432
 CALCULATION OF REVENUE REQUIREMENT

Pro forma operating expenses before taxes	\$ 39,558
Divide by: Operating ratio	88%
Total revenue required before taxes	44,952
Less: Pro forma operating expenses before taxes	<u>(39,558)</u>
Net income allowed after taxes	5,394
Multiply by: Tax gross up factor	<u>1.251564456</u>
Net operating income before taxes	6,751
Plus: Operating expenses before taxes	39,558
Revenue requirement	<u>\$ 46,309</u>
Revenue	100.00000%
Less: State tax	<u>6.00000%</u>
Sub-total	94.00000%
Less: Federal tax, 15% of sub-total	<u>14.10000%</u>
Percent change in NOI	<u>79.90000%</u>
Revenue conversion factor (Revenue of 1 divided by percent change of NOI)	<u>125.15645%</u>
Revenue Requirement	\$ 46,309
Divide by: Pro forma number of bills (107 x 12)	<u>1,284</u>
Monthly Rate	<u>\$ 36.07</u>

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2010-00432 DATED JUL 07 2011

REQUIRED NOTICE TO CUSTOMERS IF UTILITY
ELECTS TO REVISE ITS REQUEST FOR RATE ADJUSTMENT TO REFLECT
FINDINGS IN COMMISSION STAFF REPORT

NOTICE TO THE CUSTOMERS OF OLDHAM WOODS
SANITATION, INC

On November 5, 2010, Oldham Woods Sanitation, Inc. applied to the Kentucky Public Service Commission ("PSC") for authority to adjust its monthly rate from \$20.00 to \$35.00. After performing a review of the application and records of Oldham Woods Sanitation, the PSC Staff has recommended to the PSC that the requested increase in the monthly rate be approved. The PSC Staff also reported to the PSC that PSC Staff's review indicated that Oldham Woods Sanitation's current operations supported a monthly rate of \$36.05. A copy of the PSC Staff report can be found at http://psc.ky.gov/pscscf/2010%20cases/2010-00432/20110707_PSC_Order.pdf.

Pursuant to the PSC's Order of July 7, 2011, Oldham Woods Sanitation has requested that the PSC approve the higher rate of \$36.05 per month for sewer service. Any corporation, association, body politic or person may submit comments on the proposed request no later than August 10, 2011. Comments shall be in writing, shall be submitted to the Executive Director, Public Service Commission, 211 Sower Boulevard, P.O. Box 615, Frankfort, Kentucky, 40602. Comments may also be submitted by electronic mail to psc.info@ky.gov

Georgann Martin
Oldham Woods Sanitation, Inc.
P. O. Box 23226
Anchorage, KY 40223

Honorable David Edward Spenard
Assistant Attorney General
Office of the Attorney General Utility & Rate
1024 Capital Center Drive
Suite 200
Frankfort, KENTUCKY 40601-8204